NATIONAL OFFICE
250C - 2nd Avenue S.
Saskatoon, Sask., S7K 2M1
Fax (306) 664-6226
Tel (306) 652-9465

national farmers union

In Union Is Strength

National Farmers Union

Submission

to the

Canadian Wheat Board

presented

in

Winnipeg, Manitoba

June 16, 1992

National Farmers Union
Submission
to the
Canadian Wheat Board
presented in

Winnipeg, Manitoba June 16, 1992

INTRODUCTION:

It is nearly four years since the date of our last formal presentation to your Board. We welcome this opportunity to meet and discuss some important issues in this time of relative economic instability and uncertainty.

We believe it is important to reaffirm the strong support for the orderly grain marketing system that continues to exist among farm union members in particular and among the vast majority of prairie farmers in general. We are conscious of the strong pressures for change to Board marketing that have been promoted for a considerable time by some vested interest groups. We believe it is timely to again challenge these reactionary forces.

MAINTAINING MARKET SHARE:

We commend the Board for its outstanding success in maintaining Canada's market share in world markets for wheat and barley.

This has been accomplished against tremendous odds when, as reported in your 1990/91 Annual Report, 79% of all export markets for wheat were influenced by export subsidies. In spite of these market distortions, Canada's share of world wheat exports was 24.4%, an actual increase, both in terms of volume and percentage from the two previous years.

But it also has been accomplished at a high price. The continuing international grain trade war contributed to a record deficit in the 1990/91 pool

account for spring wheat of $673.4 million averaging $30.34/tonne and an additional $69.6 million averaging $20.36/tonne on durum. Barley experienced a marginal pool deficit of $956,713 or 23 cents per tonne.

We are appreciative of the large sum this shortfall cost the federal treasury and supported fully the decision it made in authorizing the Board to maintain world market share in spite of heavy losses. However, we respectfully point out that the disaster created by the continuing international grain trade war additonally cost farmers many hundreds of millions of dollars.

The Board's deficit occurred despite a low 1990/91 initial wheat price of $135/tonne for red spring wheat and $125/tonne for amber durum which had been reduced by $20 and $25/tonne respectively from the year previous. The initial price for 1 CW barley had been reduced to $125/tonne from $150/tonne in 1989/90. The viciousness of the trade war in 1990/91 was apparently not predictable.

Since the federal government does not intentionally subsidize wheat and barley prices through the initial price, the depressed prices of 1990/91 triggered a further initial price reduction in 1991/92 when the guarantee was set at $95/tonne for spring wheat, $90/tonne for amber durum and $70/tonne for No. 1 CW barley. These depression price levels have created further serious cash flow problems. Many farmers have not survived.

While small adjustment payments of $6/tonne have been made for spring wheat and barley in this crop year and initial prices increased somewhat, thousands of farmers nonetheless remain in a severe financial squeeze despite high delivery quotas, federal FSAM payments of $700 million and subsequent safety net payments under the GRIP.

In spite of possible U.S. and E.E.C. reductions in the size and volume of subsidized grain exports that may emerge following the signing of a new GATT, we do not believe it will have an immediate impact in restoring true world prices. For example, in the period June 1991 to May 7, 1992, the U.S.D.A. reports that its E.E.P.

sales totalled more than 19 million tons, compared to nearly 14 million tons a year earlier. E.E.P. bonuses averaged $49.31/ton since June compared to a 1990/91 average of $36.68 in the same period.

We are conscious of a great deal of uncertainty over-riding world grain markets as a consequence of such considerations as:

----- The economic and political instability that apparently continues to exist in the new independent states of the former U.S.S.R. and their apparent need for massive credit, not only for grain purchases, but for transportation costs as well;

----- The worsening conditions in some African countries and the growing need they have for food aid in areas such as Somalia and Ethiopia;

----- Weather conditions world-wide;

----- The possible outcome of crop production this year in the U.S. where stocks are low and, of course, in Canada.

Factors such as these suggest that credit sales and food aid will assume growing importance in our future ability to export. But the critical issues to farmers are to what extent will or should the federal government provide such credit or food aid and at what price will grain be moved?

Potential export opportunities will be further affected by the aggressiveness in world markets by other marginal exporting countries, some of which in former years were importers.

Notwithstanding these apparent difficulties, we believe it is absolutely necessary that initial wheat and barley prices for 1992/93 be increased above current levels, if at all possible. This is extremely important in helping to restore farm cash flow, to help stimulate the economic recovery and return some confidence to the grains sector.

The Cash Flow Enhancement Program that has provided producers with interest-free cash advances up to $50,000 should also be extended for the 1992/93 crop year.

Higher C.W.B. initial prices are essential in narrowing the gap between Board and open-market domestic feed grain prices. Wide disparities between these two price levels can create problems for the Board in being able to acquire adequate stocks to meet export commitments and also reduce confidence in Board marketing among some producers.

In this context, we stress the absolute importance of the Board remaining fully in control of export barley shipments to the U.S. market. We do not support the efforts of individual entrepreneurs to "cherry pick" possible premium U.S. markets at the expense of other Canadian producers by attempting to circumvent Board marketing regulations.

We also question the complying role of licensed agents of the Board who do not seek out niche markets, wherever they may be, but appear to stand ready to facilitate individual direct sales which U.S. buyers interpret as having been made outside of Board jurisdiction. We reject the concept of a North American domestic market.

While direct producer sales to the U.S. of feed barley have been limited in volume, we know pressure has also been coming from minority groups to have malting barley removed from Board jurisdiction.

Needless to say, we absolutely oppose any moves that will expose producers to the instability of open-market selling of this premium product. We fully support the extension of Board jurisdiction to the marketing of all major classes and types of grain including rye, flax and canola, as well as a return of oats to Board control.

<u>EROSION OF POWERS</u>:

It is with regret we observe that Board powers in serving the interests of farmers have continued to erode since the date of our previous meeting on July 27, 1988. This has occurred in a number of direct and indirect ways including the following:

- On August 1, 1988, the federal government's new policy was implemented for domestic wheat pricing for human consumption based on the North American market. The Board was, therefore, no longer able to negotiate the highest possible return for producers. (The $<u>227</u> million promised by the Minister to compensate producers for the loss of the domestic pricing policy translated into $<u>62.6</u> million for spring wheat and $<u>561,000</u> for durum wheat, paid only in the 1988-89 crop year.)

- Domestic pricing policy was again changed in June, 1990 from prices that were set every two or three months by the Board to <u>weekly pricing</u> established off a basis to the Minneapolis future for hard red spring wheat and the Chicago future for soft white spring wheat. Durum prices were determined with reference to trading levels for U.S. milling durum. On January 1, 1991, this was further modified from a weekly to <u>daily price quotations</u>. These changes effectively converted our domestic wheat pricing policy into a <u>U.S. pricing policy</u> and to that extent represented a loss of power for the Board.

- In May, 1991, Canadian Wheat Board <u>import control on U.S. wheat</u> coming into Canada was removed as a condition of the Canada-U.S. Trade Agreement which provided for the removal of import controls when producer support in Canada was deemed to be equal or greater than in the U.S. (This spring, barley narrowly missed also being placed in this classification.)

- On January 19, 1989, the federal government announced that effective August 1, 1989, the Board would <u>no longer market Western oats</u> domestically or for export.

These are concrete examples of loss of power the Board has endured. But we are not unmindful of the additional threats that compromise or confront the marketing integrity of the Board. Among these, we include the following examples:

- On February 24, 1992, regulations were eased for farmers shipping grain directly to the U.S., thereby no longer requiring them to unload and reload their trucks at a country elevator. As you know, this ruling can be identified directly to the infamous efforts of Buck Spencer to break Board jurisdiction in the export licensing control over barley shipments to the U.S. In this regard, he has the full support of the Alberta Government whose Minister of Agriculture has recently suggested that Alberta might withdraw its marketing agreement for barley from the federal jurisdiction. We do not believe he is unilaterally able to do so, nonetheless, this type of harassment cannot be ignored.

- The U.S. has requested a Canada-U.S. trade panel investigate complaints that our durum exports to the U.S. contravene the CUSTA. We believe this is a further attempt to undermine Board pricing policy for the undoubted purpose of weakening Board powers. Meanwhile, the U.S., through its E.E.P., has consistently undermined Canada's international grain marketing efforts in clear violation of Article 701:4 of the CUSTA which nonetheless has triggered no similar complaint action on the part of our government.

- On April 7, the President of Ogilvie Mills Ltd. told the Canada Grains Council annual meeting that his firm wished to have "open access" to Prairie wheat. He claimed open access was needed to purchase lower-priced grades and specific wheats of specific quality so they could better compete against American flour mills. This too must be considered as harassment of Board control.

Nonetheless, Ogilvie is now an American flour mill as the result of a takeover by Archer-Daniels-Midland of the U.S. as reported in the May 7 edition of the Globe and Mail.

This takeover of Ogilvie by A.D.M. now places a major sector of Canada's milling industry under direct U.S. control. We cannot foresee that the Board's future dealings in Canada with A.D.M. will be eased. It was this same corporation that recently imported cheaper rapeseed from Poland for crushing in Eastern Canada, in spite of ample supplies available in the West. Will it be as cavalier and selective in sourcing wheat from elsewhere for its future Canadian milling operations?

The direction of government policy has resulted in the growing transfer of market power to the corporate sector through legislative initiatives and deregulation. We note that as recently as May 12, the Minister of Grains and Oilseeds informed the House of Commons Standing Committee on Agriculture that he has no plans to defend the Board in the face of domestic critics adding that it wasn't the government's job. He further indicated that whether or not the Board would be changed "depends on what farmers want".

This obvious "cop-out" does not erase the vivid memory of past actions he has taken in direct defiance of popular will when, for example, oats was arbitrarily and unceremoniously removed from Board jurisdiction. In our view, this represented raw political interference in the Board's operations and did not instill strong confidence and trust in the Minister among the majority of farmers. By extension, it may also have reduced confidence in the integrity of the Board itself among some.

We are also mindful that the Minister has the benefit of a producer-elected Advisory Committee whose advice is always available to him upon request and which would provide him with an honest perspective on "what farmers want" and steer him clear of making such major blunders in policy decisions.

Currently, regulatory reviews are underway, both for the Board and the Canadian Grain Commission. This latest review will follow the Board's internal review on Board operations under the chairmanship of Barry Steers and which reported on September 14, 1990. Some of the recommendations of that report have already been acted upon by the Board while others which remain outstanding may resurface under the current review. It is our intention to participate in this

regulatory review process. While we are not prepared to become specific on our views at this time, our position will clearly be to promote proposals that will strengthen and enhance the Board's role on behalf of the producers it serves.

In this context, we absolutely do not support recent suggestions that Board functions be absorbed into a North American marketing arrangement that would suck us into the vortex of U.S. corporate grain marketing domination to any greater degree than is already the case.

A Reuters News Agency report from Canberra, Australia published earlier this year reported that "leading international grain traders have joined forces in an attempt to end the export sales monopoly of the Australian Wheat Board." The traders identified in the group included Cargill Grain, Louis Dreyfus, Conagra and Continental Grains who collectively handle 60% of the world grain trade. The executive director of the Australian Grain Exporters Association predicted they would be permitted to compete against the A.W.B. by September 1993. <u>It is not a development we wish to encourage or duplicate here</u>.

<u>TRANSPORTATION ISSUES</u>:

In the past number of years the two major railway companies have offered grain handling companies shipping discounts on multiple car shipments of grain.

It has been our position that, because farmers pay the freight on grain shipments, such discounts should be credited to farmers. While this would be difficult to impose upon non-board grains, the same is not true for export wheat and barley shipments handled by the Board.

The National Transportation Agency currently regards grain handling companies as "shippers" for the purposes of receiving railway company shipping rebates.

Such was not the interpretation in the federal Appeal Court decision of April 28, 1981 in the case of Kiist and Robertson vs. C.P. Rail, C.N. Rail and the C.W.B. as a "defendant without liability".

Justice J. Le Dain concluded that the Board acquires ownership of the wheat and barley delivered by producers and consequently is considered the shipper of such grain rather than the plaintiff producers. The case against C.P. and C.N. for failing to provide adequate rolling stock to move grain in the 1977-78 and 1978-79 crop years as required by Section 262 of the Railway Act was consequently dismissed.

We now raise this matter because of the increasing rail freight costs that are being assessed against farmers for grain movement. As noted in the 1990-91 Annual Report of the Board, these have increased steadily at an annual rate of 11.8% between 1985/86 and 1990/91. In the current crop year, average distance rates are $11.07/t and for 1992/93 will rise to $11.98/t. Rising freight costs in a time of depressed grain prices have an extremely negative impact upon farm income.

Further complicating the issue of grain freight rates is the outstanding matter of what, if anything, the federal government will do about the method of payment of the Crow Benefit. Our organization steadfastly maintains that the actual shippers of grain are best served by retaining the current method of paying the railway companies the Crow Benefit on that volume of grain actually moved through the system. This was dramatically emphasized by producers in Saskatchewan where over 90% voted to retain the current method of payment during the "Transportation Talks" consultations of last winter.

We do not support the policies of those who would convert this transportation subsidy into a financial nightmare that will thrust upon producers the entire up-front shipping costs for grain and enable railway companies to exercise still greater economic leverage in forcing the abandonment of many additional branch rail lines and hasten the centralization of grain handling facilities.

Should such a change in the method of payment nonetheless occur, the issue of the Board's status as a defined shipper of wheat and barley will become increasingly significant. This will be important for two basic reasons.

---- The per tonne rate incentive which may be offered by railway companies from certain locations may be sharply increased.

---- Should the railways additionally be permitted to secretly contract grain freight rates with shippers while farmers are deducted the full amount of the grain rate shipping schedule, it is extremely important that the Board negotiate such rates on behalf of producers as the legal shipper of export wheat and barley and that such savings be reflected in the Board's pool accounts.

A change in the method of payment would also extend grain and railway companies greater latitude in selecting alternate shipping routes for grain, including those that by-pass Canadian ports and facilities such as the Mississippi waterway.

This could quickly occur for non-board grains. Such re-routing through the U.S. may also be used by the Board which already has made a trial shipment of 55,000 tonnes of barley through the port of Seattle in November, 1991.

The Board has a responsibility in protecting the transportation interests of farmers in the eventuality that the entire grain shipping regime for farmers should be turned upside down.

Steadily increasing costs in elevation and handling costs are, we believe, stimulating the unprecedented high use of producer cars. The Canadian Grain Commission recently estimated that producer car shipments may this crop year range between 12,500 and 15,000. Over 87% of shipments are Board grains.

Depressed initial prices undoubtedly stimulate the volume of such shipments. However, we observe that the terminal elevators in this crop year are charging the maximum tariffs permitted by the Canadian Grain Commission for all

terminal services. We attribute this to the loss of revenues associated with the by-passing of country elevators by producer car shippers. If this is the case, it also means that terminal charges on Board grains originating in country elevator facilities are inflated beyond reasonable levels.

If the Board is not already doing so, we recommend that rates below maximum allowable CGC tariffs be negotiated with terminal operators on Board grains originating from country elevators.

CHECK-Offs:

Recently a committee of the Board and its Advisory Committee canvassed organizations to measure support for a check-off on Board grains that would be dedicated to scientific research.

Our organization has consistently held that scientific research in the development of new varieties of grain benefits all stakeholders in the grains industry and may, indeed, benefit persons other than farmers more than farmers themselves. Because we have held that scientific research is in the national interest, it should continue to remain publicly funded.

Such check-offs represent an off-loading of federal responsibility. Current federal policy not only is dedicated toward off-loading an increasing amount of scientific research costs directly upon farmers through direct check-off taxes but has additionally exposed farmers to higher seed input costs in the way of royalties granted to patent right holders. Farmers, therefore, are in the ludicrous position of contributing to research as general taxpayers, through check-offs, and again through royalties that will be charged on the new varieties they have helped finance.

We do not question the need for scientific research -- but we do object to being singled out among all the stakeholders as the sole source of additional funding.

Does the Board feel that its public mandate to market grain on behalf of producers is being compromised by administering a check-off for scientific research? Can there here be detected, as a crown corporation, a conflict of interests between what government wants and what is a legitimate cost burden to place upon farmers? This is an issue we expect the Advisory Committee has pondered.

While the Board's research proposal may be debatable, we find it absolutely incomprehensible that it should additionally support the inclusion of Board grains for check-off purposes under Bill C-54.

Proposed check-off funding under that legislation is to be dedicated to "promotion and research" and is entirely open-ended in its commitment to scientific research efforts of any kind. We have always assumed that producers, through the Board, are already paying for promotion and market research which are essential to the Board in carrying out its mandate. We cannot foresee how "a choice" could be administered as between check-offs under Bill C-54 vs. check-offs through the Board as was reportedly indicated recently to the Senate Committee on Agriculture and Forestry which is attempting to have Board grains included under Bill C-54 after having been declared out of order by the House of Commons Speaker in the original Commons Agriculture Committee report.

We are not aware of the Board's Advisory Committee of elected-producer representatives having put forward such a proposal and must, therefore, regretfully conclude that the integrity of the Board is being compromised for political purposes by the Minister.

We strongly recommend that the Board disassociate itself from the role of serving as a policy surrogate for the Minister on what are political issues of his or the government's choosing. There is no better way for the Board to discredit itself in the minds of farmers than to sacrifice its objectivity and neutrality on such matters of policy.

<u>CONCLUSION:</u>

Farmers are living in difficult times. The pressures for change and adjustment are constantly bombarding us with buzz-words such as "competitiveness", "globalization", "efficiency" and "sustainability".

We are producers of wealth but <u>there is a cost</u> to that production which must be effectively recovered from the marketplace or it will cease to be created and our nation will be the poorer for it.

We look upon the Board as being "on our side" in maximizing market returns and better enabling us to remain in production and in business to sustain not only ourselves but the rural communities in which we live.

We appreciate the opportunity this meeting has provided in reminding you that the Board continues to have the confidence of the vast majority of producers who are anxious that its integrity and reputation be upheld and strengthened.

For the purposes of the record, all farmers deeply regret the untimely accidental death of Commissioner W.H. Smith that occurred in China last week while in the service of farmers. His presence on the Board and negotiating skills on behalf of farmers will be missed and represents a tremendous loss to us all.

- 30 -

All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION